Members:

Rep. B. Patrick Bauer, Chairperson
Rep. Lawrence Buell
Rep. William Cochran
Sen. Lawrence Borst
Sen. Michael Gery

LSA Staff:

Ross Hooten, Attorney for the Commission
Michael Landwer, Attorney for the Commission
Diane Powers, Fiscal Analyst for the Commission

Statutory Authority: IC 2-5-3

COMMISSION ON STATE TAX AND FINANCING POLICY

Legislative Services Agency
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MEETING MINUTES

Meeting Date: **October 7, 1998**
Meeting Time: **9:30 A.M.**
Meeting Place: **State House, 200 W. Washington St., Room 404**
Meeting City: **Indianapolis, Indiana**
Meeting Number: **1**

Members Present: **Rep. B. Patrick Bauer, Chairperson; Rep. Larry Buell; Rep. William Cochran; Sen. Lawrence Borst; Sen. Michael Gery.**

Members Absent: **None.**

Rep. Bauer called the meeting to order at 9:50 a.m.

After an introduction by Mark Webb, general counsel to the Public Employees' Retirement Fund (PERF), Mary Beth Braitman of the law firm Ice, Miller, Donadio and Ryan testified on behalf of PERF and the Teachers' Retirement Fund (TRF). Ms. Braitman presented a status report[1] updating the Commission on portfolio restructuring in PERF and TRF. Ms. Braitman characterized the report as a snapshot of the two funds' activities as of September 1, 1998. Ms. Braitman explained that no money has been allocated to international equities by PERF because money managers for international equities have not yet been selected. However, TRF has selected such money managers and some money has been allocated to international equities since September 1.

Ms. Braitman also presented a chronology of portfolio restructuring in PERF and TRF. The time line recaps the activity of the two funds dating back to the November 5, 1996 passage of the equities referendum by the voters of Indiana.

[1]The reports, chronologies, memoranda, and other data presented to the Commission and referred to in these minutes are on file with the Legislative Information Center, Room 230, State House, Indianapolis, Indiana. The telephone number of the Legislative Information Center is (317) 232-9856, and the mailing address is 200 West Washington St., Suite 301, Indianapolis, Indiana 46204-2789.

Rep. Bauer asked whether Ms. Braitman had a recommendation concerning members of the funds having only one opportunity per year to move their money among the investment options. Ms. Braitman replied that the fund boards expected to add more options in the future, but noted that the boards are concerned that members would not move at the most advantageous times. She stated that the boards are still evaluating the issue and stressed that member education is very important to the boards.

Mr. Webb then discussed the chronology presented by Ms. Braitman. Mr. Webb noted that PERF increased the amount of its monthly allocation from $100 million to $120 million in the summer of 1998. Mr. Webb said that PERF expects to begin funding the international equity accounts in 1999 and intends to reevaluate the fixed income portion of the portfolio in the near future.

Sen. Borst then discussed with Mr. Webb and Diann Clift the PERF board's selection of money managers, the amounts invested by each money manager, and the fees paid to the money managers.

Mary J. Pettersen, Director of TRF, then responded to questions concerning the chronology with respect to TRF's activities.

Sen. Borst asked when TRF made its first investment. Ms. Pettersen replied that the first investment occurred in August, 1998 and that $632 million had been invested thus far with another $120 million to be invested very soon. Ms. Pettersen then presented the Commission with the funding schedule of TRF.

Sen. Borst also discussed TRF's selection of money managers with Ms. Pettersen.

Thomas D. Conley, Administrator of Tax Policy for the Department of State Revenue, reviewed the reciprocity dispute with the state of Illinois. Mr. Conley reported to the Commission that Illinois rescinded the reciprocity agreement with Indiana in October 1997. Mr. Conley stated that there has been no change in the amount of income taxes paid by Indiana residents as a result of the termination of the reciprocity agreement. Mr. Conley informed the Commission that the department continues to study the situation.

Michael Landwer, attorney for the Commission, presented a memorandum explaining changes in the IRS Restructuring and Reform Act of 1998. Among the federal changes highlighted in the memorandum is a reduction in the capital gains holding period to qualify for lower rates on capital gains.

Diane Powers, fiscal analyst for the Commission, presented a companion memorandum detailing the fiscal impact of the changes found in the IRS Restructuring and Reform Act of 1998.

Ross Hooten, attorney for the Commission, presented a memorandum addressing gambling issues and state and federal income taxation. Mr. Hooten noted the introduction of federal legislation to remove the wagering losses deduction from the

Internal Revenue Code. However, Congress has not passed that legislation.

Gary Gibson, Commissioner of the Bureau of Motor Vehicles, testified that motor vehicle highway fund (MVHF) money is necessary for the operation of the Bureau of Motor Vehicles Commission (BMVC). Mr. Gibson reported that the MVHF money will remain necessary until BMVC revenue increases or expenses decrease. Mr. Gibson noted that the Crossroads 2000 program is a start and marks the first fee adjustment in over a decade for the BMVC. Mr. Gibson also reported that the BMVC is currently studying its costs and services with a focus on transaction volume, branch locations, and the number of branches. Mr. Gibson remarked that while the BMVC wants to reduce costs and eliminate reliance on MVHF money, its primary goal is to serve people. Mr. Gibson closed his testimony stressing that the BMVC will continue to strive to provide access, accountability, and a low cost service to the public.

Rep. Bauer asked how much of a fee increase is necessary to end the BMVC's reliance on MVHF money. Mr. Gibson replied that the BMVC will not have that information until it completes the cost study.

When asked by Sen. Borst about the size of the BMVC's deficit, Deputy Commissioner Vincent Harrington replied that it is $600,000 in calendar 1998, but added that the amount does not account for pay raises.

Ross Hooten, attorney for the Commission, presented a memorandum updating the Commission on the activity of the Michigan Renaissance Zone program. Mr. Hooten detailed the number of projects receiving benefits under the program since its inception in 1997. Mr. Hooten also described the range of projects receiving benefits under the program.

Mr. Hooten also presented a memorandum addressing state tax treatment of charitable gifts. Mr. Hooten reported to the Commission that only two states provide specific tax deductions or credits for donations to charity of the type described in Senate Resolution 26-1998.

Senator James Merritt testified about SB 238-1998 and its proposal to establish a transportation funding oversight committee. Sen. Merritt expressed his belief that the General Assembly has a role in helping the Indiana Department of Transportation (INDOT) spend the money appropriated by the General Assembly. Sen. Merritt noted that a role for the General Assembly is especially important as work begins on I-69 and the Heartland Corridor. Sen. Merritt voiced his support for a bill to create an oversight commission patterned after the Pension Management Oversight Commission.

Dennis Faulkenburg, chief financial officer of the Indiana Department of Transportation, closed the testimony by addressing Indiana's use of federal highway money. Mr. Faulkenburg discussed the accounting procedures associated with federal money and the permissible uses of various sources of federal money. Mr. Faulkenburg reported to the Commission that Indiana will fare better under the new federal highway funding law (known as T-21) than under the old law. Indiana's return on each $1.00 sent to the federal government in highway taxes increases from $.78 to $.905 under T-21. Moreover, Mr. Faulkenburg informed the Commission that Indiana's average annual share of federal highway funds increases from $405 million to $617 million under T-21. Mr. Faulkenburg also reported that $168 million in bonds have been issued under the Crossroads 2000 program.

Rep. Bauer adjourned the meeting at 11:30 a.m.